

THE H.J. HEINZ COMPANY ANNUAL REPORT

1990



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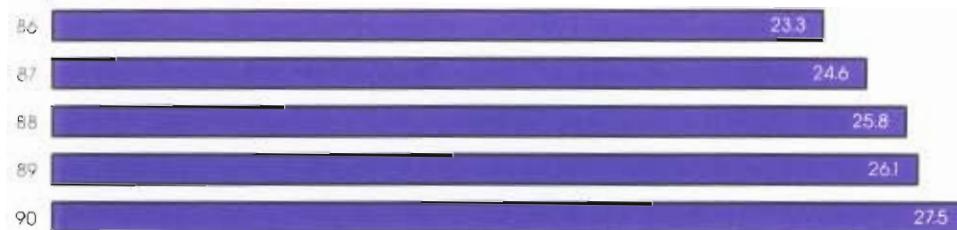
HIGHLIGHTS

H. J. Heinz Company
and Subsidiaries



(dollars in thousands except per share data)	1990	1989	1988
Sales	\$ 6,085,687	\$ 5,800,877	\$ 5,244,230
Operating income	921,916	803,490	688,013
Net income	504,451	440,230	386,014
Per common share amounts:			
Net income	\$ 1.90	\$ 1.67	\$ 1.45
Dividends	.81	.69%	.60%
Book value	7.44	6.91	6.24
Capital expenditures	\$ 355,317	\$ 323,325	\$ 238,265
Depreciation and amortization expense	168,523	148,104	133,348
Property, plant and equipment, net	1,567,752	1,366,023	1,253,939
Cash, cash equivalents and short-term investments	\$ 241,081	\$ 237,729	\$ 252,846
Working capital	733,699	659,284	589,721
Total debt	1,256,607	962,321	780,330
Shareholders' equity	1,886,899	1,777,238	1,593,856
Average shares for earnings per share	266,078,096	263,568,068	265,411,890
Current ratio	1.57	1.59	1.55
Debt/Invested capital	40.0%	35.1%	32.9%
Pretax return on average invested capital	31.3%	31.4%	30.0%
Return on average shareholders' equity	27.5%	26.1%	25.8%

Share and per share amounts reflect the two-for-one split of common shares in the form of a distribution, effective September 27, 1989.

Return on Average Shareholders' Equity
(in percent)

Dividends and Earnings per Common Share
(in dollars)


Success has been the companion of the H.J. Heinz Company in Fiscal Year 1990. But this partnership is not new, nor is it extraordinary. It epitomizes the company's continuity of performance within a context of change. Europeans in particular might look upon 1990 as the Year of Change. The decade has opened with profound transformations. National and ideological boundaries are being withdrawn, stimulating powerful consumer expectations long frustrated or ignored. Heinz continues to be the beneficiary of such change, sustained by a durable strategy of growth whose interval may be marked by quarters, years or even decades.

For the 26th consecutive year, Heinz has recorded new levels of financial achievement. The figures on the first page detail the latest chapter in the Heinz story. Across a broad spectrum of measurement—sales, income, earnings per share, return on equity, profit margins—your company has surpassed all previous levels of performance and value.

Heinz's total market capitalization reached \$7.9 billion at the end of Fiscal 1990. In 1980, with more shares in issue, our market capitalization stood at approximately \$900 million. This constant rise reflects not only our financial development, but also the continuing confidence of the market.

We continue to earn this confidence by carrying the achievement of the present forward into the future. Our gross profit margin in Fiscal 1990 stood at 38.8% of sales. For Heinz, our margins are the source of oxygen that animates our powerful brands.

We fully intend to continue this consistent and prolonged dilation of our margins in the 1990s. Heinz has depended on no single event or turn of good fortune for its progress thus far. Our strength lies in our unflagging resolve to strengthen our big brands, extend our geographic reach, capture profitable niches and develop the extraordinary potential of our unique brand franchise, Weight Watchers.



Dr. Anthony J.F. O'Reilly
Chairman, President and Chief Executive Officer

The chief beneficiaries of this strategic continuity have been Heinz shareholders. Dividends since 1980 have grown at an annual compounded rate of 16.2%, which together with the substantial appreciation in the value of Heinz shares, has contributed to a total return to shareholders for the decade of 1,220.9%, equivalent to a compounded annual return of 29.5%.

The Heinz recipe for growth will have to contend with many changes in the 1990s. Eastern European Communism has succumbed to the contagion of freedom with unimaginable speed. The unification of the European Community proceeds. The economic partnership between the U.S. and Canada moves closer to integration. The "green movement" further presses the productive capacity of the Green Revolution.

Heinz management has the experience and the vision to take its tested strategies into these untested waters. For example, the media revolution occasioned by the growth of cable/satellite television is creating new global consumers and we are positioning our Heinz and Weight Watchers brands to become members of the worldwide branded gentry.

We are confident, but not content. Substantial internal reform will be achieved by Heinz in the 1990s through our policy of Total Quality Management (TQM). By improving every process and doing the job right the first time, Heinz employees around the world will continually strengthen the company's performance and maximize consumer satisfaction.

We have remained acutely sensitive to consumer concerns. In 1990 our StarKist subsidiary took the lead in refusing to buy tuna caught in conjunction with dolphins. The result has been an outpouring of support. We received similar response with the announcement of our recyclable plastic ketchup bottle.

The future of H.J. Heinz Company, like its past, is ours to make. With diligent application and opportunistic adaptation, our strategies for success will continue to amplify the value of your company throughout the decade to come.



Anthony J. F. O'Reilly
Chairman, President and Chief Executive Officer

YEAR IN REVIEW
AND
MANAGEMENT'S
DISCUSSION
AND ANALYSIS

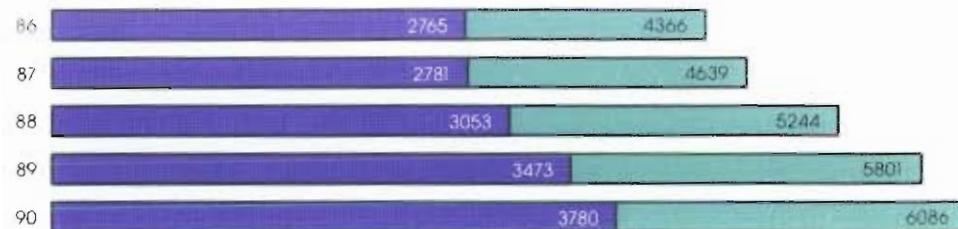
Net Sales

(in millions of dollars)

■ Domestic

■ Foreign

Five-Year Compound
Growth Rate 8.5%



Operating Income

(in millions of dollars)

■ Domestic

■ Foreign

Five-Year Compound
Growth Rate 14.2%



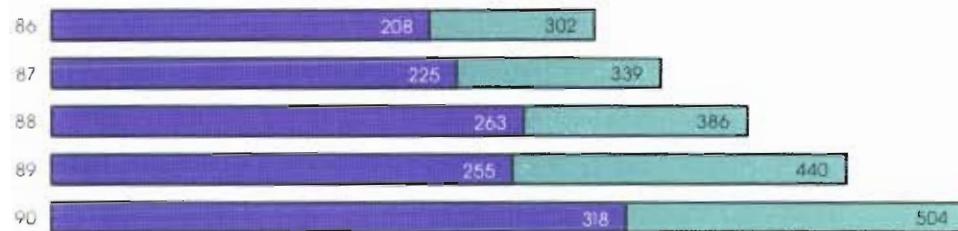
Net Income

(in millions of dollars)

■ Domestic

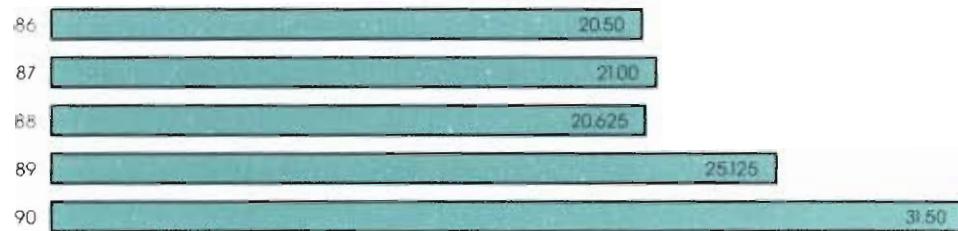
■ Foreign

Five-Year Compound
Growth Rate 13.7%



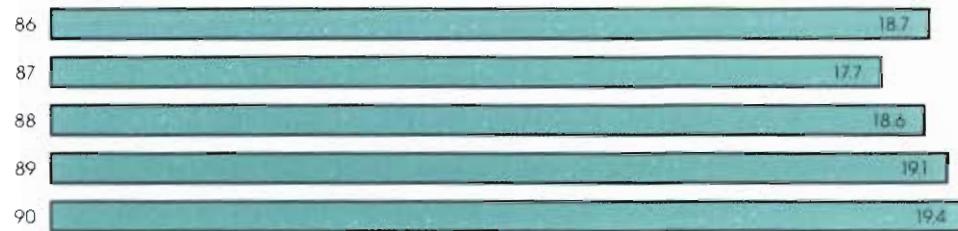
**Common Stock Price
at Year End**

(in dollars)



**After Tax Return
on Invested Capital**

(in percent)

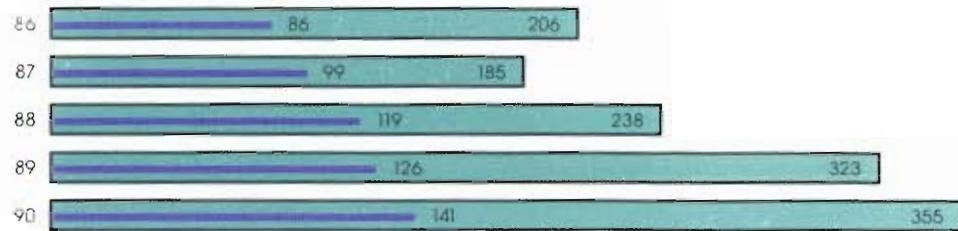


**Capital Expenditures
and Depreciation**

(in millions of dollars)

■ Capital Expenditures

■ Depreciation



YEAR IN REVIEW

H.J. Heinz Company
and Subsidiaries

Marketing and Sales

Fiscal 1990 represented another advance in the H.J. Heinz Company's long progression of growth. Heinz extended the market-leading presence of its big brands and found new niches and new products to capture promising markets.

The global enterprises of H.J. Heinz Company achieved record sales of \$6.1 billion. Approximately 40% of Heinz sales came from offshore operations. With this sales record, Heinz scored its 26th consecutive year of financial growth.

Worldwide marketing support was the underpinning of the company's noteworthy sales performance. Strengthened by this support, established brands and new offerings alike attained ever-higher levels of consumer loyalty. A full 56% of Heinz's global sales came from products that hold the number-one brand position in their respective markets.

Heinz ketchup, ever the flagship brand, registered the highest market share growth of any ketchup in the U.S. More than half the ketchup sold in grocery stores and nearly 60% sold in the foodservice trades bears the Heinz label.

Other condiments scored impressive gains. Shipments of seafood cocktail sauce and horseradish sauce rose, as did the market shares of Heinz gravy, Worcestershire sauce and pickles. Increased media and promotional support helped Heinz 57 Sauce attain its highest-ever market share. Chico-San's market share rose to 39%, making it the nation's leading rice cake brand.

New and existing Weight Watchers brand products have been successfully reformulated to reduce the percentage of calories from fat, sodium and cholesterol, while retaining excellent taste.

With the introduction of four new items, Weight Watchers brand frozen entrees attained a 19.1% dollar share of their market. The Weight Watchers Central Location Line attained a record 40% of diet section sales in January 1990.

StarKist Seafood's powerhouse, the 6.5-ounce can of tuna, continued its leadership in the market. Within this key segment, StarKist sales have been exceptional and market share has reached 36%. StarKist produced advertising campaigns to stress its dolphin-safe fishing policies and to emphasize the low-fat and low-cholesterol benefits of tuna.

Ore-Ida's fried potato line maintained its leading share of the American frozen potato market.

Heinz Pet Products enjoyed substantial success. 9-Lives canned cat food held its lead in the market and expanded unit sales 2%.

Younger Heinz cat and dog food brands performed exceptionally well. Kozy Kitten dry cat food generated a 23% increase in volume. Skippy Premium canned dog food set records of its own, surpassing last year's sales by more than 15% and reaching the number-three position in its national category.

Hubinger entered the fuel ethanol market during Fiscal 1990, following the start-up of an ethanol production facility near its corn processing plant. The ethanol is sold for blending with gasoline.

Heinz-Canada drew substantial yields from the Weight Watchers brand, whose light entrees recorded a 32% increase in volume. Impressive gains in its line of red juices gave Heinz-Canada an even healthier lead in this market.

Heinz-U.K. found sustained vigor in its major lines. Soup and baked beans reached new levels in sales and garnered market shares of 56% and 50% in their respective categories. With microwave usage now at 50% of U.K. households, the company anticipates substantial market dividends from LunchBowl, its range of microwaveable meals.

On the Continent, Heinz's popular Spaghettoni cooking sauces lead the market in Belgium and Holland and hold second place in France. For the second straight year, Heinz ketchup sales volume grew 25% in West Germany, where Weight Watchers brand products continue to attract consumer attention.

Heinz-Italy furthered its "environmental oasis" concept and gained greater loyalty among parents anxious about the purity and safety of baby food. Its wet baby food, sold under the Plasmon, Nipol and Dieterba brands, displayed volume growth of nearly 12%.

Heinz's Spanish affiliate made ketchup king with a 50% increase in sales volume over the previous fiscal year. It also expanded sales of its popular Orlando brand tomate frito.

Across the Pacific Rim, Heinz-Australia commands more than 80% of the baby food market. Adult Australians turned to Weight Watchers brand soups in greater numbers, extending the brand's share to nearly 14% of the dietary market segment.

Seoul-Heinz in South Korea garnered 25% of that nation's retail squeezable margarine market.

On the other side of the globe, Heinz's Zimbabwean affiliate, Olivine, increased the market share for its popular Perfection brand soap by 10%.

New Products

Last year, consumers displayed an insatiable appetite for new variety and a strong inclination toward environmental responsibility. Heinz put its technical expertise at the service of both goals.

Heinz U.S.A. announced that it would begin production in 1991 of a recyclable version of its popular plastic ketchup bottle. This breakthrough once again made Heinz the leader in innovative packaging.

Myriad foodservice products were added to satisfy the ever-growing number of consumers who dine out. Among these were Near East chicken-flavored rice pilaf, a line of foodservice gravies, a national roll-out of single-serve salad dressings and the largest ketchup container ever: a 60-gallon Vol-Pak (multi-layer bag) designed for large commissaries and manufacturers that use Heinz ketchup as an ingredient.

New products continue to be crucial for the growth of Weight Watchers brand frozen entrees and hosts of them were created. Heinz U.S.A. introduced six items to the Weight Watchers Central Location Line and three additional varieties of Ultimate 90 yogurt.

A ground-breaking development for the brand was the introduction of a line of Weight Watchers brand frozen microwaveable breakfasts. The 13-item range was developed in response to consumer interest in convenient, nutritious breakfast products.

January 1990 saw the launch of Weight Watchers International's New Fast & Flexible program in North America. During the fiscal year, new programs were also launched in Austria, France, West Germany, Sweden and Switzerland.

StarKist introduced hickory-smoke-flavor tuna and a four-item line of whole and boneless/skinless sardines.

Foodways National introduced Steak-umm Cheesesteak to Go, a sandwich kit that quickly achieved a leading share of the category.

Venezuela's Alimentos Heinz created Tomattina, a unique tomato-based pasta sauce. Other offerings included soy sauce and ketchup in plastic bottles.

Building on the strength of its wet baby food, Heinz-Italy undertook a dynamic program focusing on its highly popular Nipiol brand. Nipiol strained fish and strained vegetable lines brought new tastes to Italian babies. A reformulated multisoy infant formula and two Dieterba baby cereals rounded out the roster of new offerings in Italy.

Sperlari and Scaramellini, Heinz-Italy's confectionery businesses, devised new varieties of hard candies, coated bubble gums and jelly beans.

Heinz Iberica in Spain launched its successful tomate frito nationwide and offered consumers Fabada, a Spanish blend of baked beans and meat.

IDAL, Heinz's Portuguese affiliate, introduced a new tomato sauce under the Orlando brand.

Heinz-Japan brought out new stews and sauces under its Chef Brillante and Chef Grand labels. Japanese also could sample a new size plastic ketchup bottle and three varieties of ingredients for homemade sushi.

Heinz Win Chance made initial offerings of seasoning soy sauce, fruit cereal and spaghetti sauce to shoppers in Thailand.

Consumers in Botswana were treated to Oodi glycerine soap, as well as Marang dish washing liquid.

Facilities and Customer Service

Never relenting in its search for superior products and service, Heinz continued to scrutinize and streamline operations.

Heinz U.S.A. successfully implemented a centralized dispatch system at its Pittsburgh headquarters. This on-line computer system greatly improved the efficiency of the company's transportation network.

Foodways National modified a number of production, packing and storage facilities to glean substantial savings in its frozen food operations.

Ore-Ida purchased the Kraft U.S.A. plant in Pocatello, Idaho. This will be an important site for production of both Ore-Ida and Weight Watchers brand frozen food and should save more than \$1 million in annual distribution costs.

Heinz Pet Products undertook dramatic low cost operator initiatives, closing more than 50 distribution points to consolidate operations into just seven. Five factories were closed as well. The affiliate announced that it would move its headquarters office from Long Beach, California to the Greater Cincinnati area.

Utility costs were the focus of Heinz-Canada's efficiency investments. A new cold-fill ketchup line in the affiliate's Leamington factory offers high productivity rates. This, in conjunction with installation of a steam recycling unit, will reduce the factory's utility costs by 56%.

The Elst factory in the Netherlands saw the automation of its ketchup kitchen, including computer-controlled batching and processing.

For Heinz Iberica the upgrading of old equipment and the installation of new technology will mean laudable advances in production, packaging and shipping for the Spanish affiliate.

Heinz-Australia celebrated the opening of its new R&D center and added computerized capabilities to its existing production facilities.

Acquisitions

Carefully chosen niche acquisitions gave added vigor to select businesses within especially promising markets.

Ore-Ida acquired Bavarian Specialty Foods, Inc., a California manufacturer of quality finished baked goods for the foodservice trade. This acquisition gives Ore-Ida's foodservice business a foothold in the frozen baked goods category.

Already a leader in its country's foodservice pastry business, Heinz-Canada now operates the Pestritto Companies of New Jersey, producers and distributors of frozen, unbaked bread and specialty dough products. This new affiliate will be an important contributor to Heinz-Canada's network for providing unbaked frozen dough and sweet goods to specialty and in-store bakeries.

Heinz-Australia found a most accommodating facility in the Girgarre Cheese Factory, which was purchased and transformed into Girgarre Country Foods. This new Heinz plant, favorably positioned in the tomato fields of northern Victoria, will enable Heinz-Australia to modernize its production and save approximately 50% in freight costs.

Procurement

The acquisition of the earth's riches is a vast undertaking, subject to nature's caprice and human folly. Minimizing the effects of both requires a broad strategy and highly skilled management.

A cold, wet planting season delayed Heinz U.S.A.'s "early start" plans for cucumbers and tomatoes in the Midwest. The use of greenhouse tomato plants and proprietary hybrids increased substantially, helping to offset the effects of bad weather and to produce more consistent field and factory yields.

Likewise, tomatoes were procured in California's Imperial Valley. This practice allowed Heinz U.S.A. to obtain tomatoes four weeks earlier than in the past. West Coast tomato growing areas were expanded, and Heinz benefited from a record California harvest.

Heinz U.S.A. successfully negotiated a four-year collective bargaining agreement between cucumber growers and the Farm Labor Organizing Committee, which represents migrant workers on farms in northwest Ohio and southeast Michigan.

StarKist Seafood took a revolutionary position with the announcement that it would honor consumer concerns and not purchase any tuna caught in association with dolphins. The first tuna processor to make such an announcement, StarKist also declared that it would continue its practice of refusing to buy any tuna caught with gill or drift nets, which are known to be dangerous to many forms of marine life.

The "environmental oasis" policy continues to guide the procurement efforts of Heinz-Italy. Plada works closely with suppliers to ensure pure, safe, superior-quality raw materials. In Portugal, IDAL used a fully mechanized tomato procurement process for the first time.

Research

Continual research fuels the engine of progress at Heinz. New ideas and new technology enable the company to keep pace with consumer needs and to be a step ahead of changing circumstances.

A major thrust of the Heinz U.S.A. agriculture research program has been the breeding of natural resistance into its tomato varieties to reduce the use of pesticides. Significant reductions are expected in the near future. Heinz U.S.A. achieved a breakthrough in a cooperative effort among tomato breeders in Ontario, Ohio and California to develop an "ultra-early-maturing" tomato variety.

StarKist has begun a fish thawing research program to better control fish temperature prior to pre-cooking, with resultant increases in yields.

Heinz-Australia sponsored nutritional research by the Commonwealth Scientific & Industrial Research Organization, delineating the considerable health advantages of consuming beans. In the PRC, Heinz-UFE completed an anemia prevention study in cooperation with a hospital and university in Guangdong.

Public Service

While striving for ever greater financial and marketing records, the companies of Heinz have never been too busy to attend to the needs of their communities around the world. The H.J. Heinz Company Foundation set the philanthropic pace with grants totaling \$6.5 million to approximately 1,000 organizations, \$700,000 of which came from contributions matching those made by some 650 employees.

The Foundation's breadth of community involvement is indicated by a brief listing of some of the beneficiaries: The Carnegie, Reading is Fundamental, American Dietetic Association Foundation, and many others.

Heinz U.S.A. offered quick response to the tragedy of Hurricane Hugo by donating more than 162,000 cans and jars of food to victims in Puerto Rico and South Carolina. The company also gave much-needed baby food to victims of the San Francisco earthquake. Serious food shortages in Poland and Romania led Heinz U.S.A. to donate 13,000 cases of food for distribution there by Brother's Brother Foundation. Likewise, a large percentage of domestic food donations were made to the Second Harvest National Food Bank Network, which presented Heinz with its Partnership Award.

Now in its 11th year, the Heinz U.S.A. Baby Food Label-Saving Program resulted in donations of \$418,000 to participating children's hospitals. For the past several years, Heinz U.S.A. has been a major benefactor of the Burger King Franchisee Support Center for Cancer.

Weight Watchers International and many of its franchise areas continued to support the March of Dimes WalkAmerica program. In keeping with its devotion to fitness, Weight Watchers International was one of the top-five national fund-raisers for this cause.

Hubinger was selected this year for the Great River United Way Recognition of Service Award, given in honor of the outstanding level of support provided by its employees.

Heinz-U.K. was voted the Best Company Manufacturer in the coveted Green Awards, organized by *The Grocer* magazine. The award salutes Heinz-U.K. for having the "most consistent and widest series" of environmental initiatives.

Italy's Plada affiliate held its ninth annual Study Seminar for Young Pediatricians. Unique in Italy, the Plada Study Seminars cover a series of vitally important topics such as nutrition's role in preventing childhood illness.

For the 19th consecutive year, Heinz-Australia supported the little athletics program in Victoria. The company also played a major role in the 43rd Dandenong Festival of Music and Art for Youth.

The Heinz Institute of Nutritional Sciences held its fourth "Maternal and Infant Nutrition Symposium" in China's Sichuan Province. The symposium concerned growth patterns of Chinese babies born in different parts of the world.

Results of Operations

In 1990, net sales increased \$284.8 million, or 4.9%. The increase is the result of volume growth, price increases and acquisitions, net of foreign divestitures. Partially offsetting the sales growth is the adverse impact of foreign exchange resulting from the strengthening of the U.S. dollar against most currencies, particularly in the United Kingdom and Venezuela.

Sales volume increased \$133.7 million in 1990 and accounted for nearly one-half of the sales growth. Approximately 60% of the volume improvement came from domestic operations. Heinz grocery and foodservice ketchup, Starkist tuna products, Weight Watchers brand frozen meals and Ore-Ida grocery and foodservice frozen potatoes provided the majority of the domestic volume gains.

Foreign volume growth came from Weight Watchers brand food products (in the United Kingdom, Central Europe and Canada), baby food (in Italy), Heinz beans (in the United Kingdom and Canada), sauces and pastes, edible oils and frozen bakery products.

Higher sales prices contributed \$206.5 million, or approximately 72% of the 1990 sales gain. Approximately 20% of the price increase (\$40.3 million) came from Venezuela and was offset by unfavorable exchange rates. Of the remaining price increase (\$166.2 million), 55% came from foreign and 45% came from domestic operations. Foreign price increases occurred in Weight Watchers brand food products, baby food in Italy, and Heinz beans and soups in both the United Kingdom and Australia. Domestic price increases occurred across a broad range of products: Heinz grocery and foodservice ketchup, corn syrup sweeteners, Weight Watchers brand food products and meeting operations, Ore-Ida frozen potatoes, pet food, baby food and soup. Price declines in Starkist tuna partially offset price gains for other U.S. affiliates.

Changes in exchange rates used to translate foreign currencies reduced sales by \$144.0 million. Declines came primarily from the stronger U.S. dollar versus the Venezuelan bolivar and the pound sterling. Acquisitions accounted for \$126.7 million of the sales gain.

In 1989, net sales rose 10.6%, or \$556.6 million. Approximately 75% of the total sales improvement came from domestic companies, primarily because of domestic acquisitions and the effect of foreign divestitures. Volume growth accounted for nearly half of the increase of \$556.6 million, with price increases and acquisitions, net of divestitures, contributing equally to the remainder. Changes in exchange rates used in the translation of foreign currencies did not have a significant impact on sales.

Sixty percent of the volume increase in 1989 came in the domestic market. Weight Watchers brand food products were the leading contributors to this increase. Heinz ketchup, both grocery and foodservice, and Ore-Ida frozen potatoes also had volume increases. In foreign markets, volume growth came primarily from the United Kingdom and Italy, which together accounted for approximately 30% of the total volume increase. The improvement in the United Kingdom was led by Weight Watchers brand frozen meals and Heinz beans, while increases in Italy resulted primarily from baby food. Canada also had strong volume improvement in its frozen unbaked pastry business.

In 1989, price increases contributed nearly one-fourth of the total sales increase and were evenly split between domestic and foreign markets. Domestic increases were primarily attributable to Starkist tuna, corn syrup and other corn products, and Weight Watchers meeting operations. Foreign price increases occurred principally in the United Kingdom, Italy and Australia.

Acquisitions in 1989 and 1988 (primarily in pet food, Weight Watchers brand food products and in Spain) accounted for the remainder of the 1989 sales increase.

The company continued to invest heavily in its brands. Total marketing support, composed of trade promotions and advertising, increased 7.5% over last year, compared to an increase of 10.5% in 1989. Advertising remained at the same level as last year. As in the past, the big brands (Heinz ketchup, Weight Watchers brand food products and meeting operations, and Ore-Ida frozen potatoes) were primary recipients of the expen-

diture. In addition, StarKist tuna promotions began in 1990 announcing the company's "dolphin-safe" tuna products, which were made available to the consumer beginning in early Fiscal 1991.

Gross profit increased \$108.4 million in 1990; the gross profit margin as a percentage of sales remained constant with last year at 38.8%. Favorable raw corn costs and increased margins at the United Kingdom and Italian operations were offset by higher average raw tomato and potato purchase costs. In addition, restructuring costs were incurred to streamline the pet food operations. The gross profit margin improved slightly in 1989, rising to 38.8% from 38.7% in 1988. Ongoing efforts to improve cost efficiencies, together with higher selling prices, offset higher raw materials costs in 1989.

Operating expenses, which consist principally of selling, distribution, advertising and administrative costs, declined as a percent of sales in 1990 for the third consecutive year—23.6% in 1990, 24.9% in 1989 and 25.6% in 1988. The company continues to emphasize cost reduction and efficiency. In 1990, the company's pet food operations shut down 50 outside distribution points. In 1989, mid-year divestiture of the company's foreign chilled salad operations cut distribution costs and continued to benefit 1990 results.

Operating income in 1990 increased \$118.4 million over the prior year and the operating income ratio improved to 15.1% in 1990 from 13.9% in 1989 and 13.1% in 1988. Approximately 80% of the operating income increase came from domestic operations. The increase was fueled by price and volume gains (particularly from Heinz ketchup, Ore-Ida frozen potatoes and Weight Watchers brand food products) as well as favorable corn costs and continued emphasis on cost reductions. Foreign operations furnished less of the operating income gain in 1990 due to the strength of the U.S. dollar and higher raw materials costs in 1990 compared to 1989.

In 1989, both domestic and foreign operations contributed to improved operating income. Approximately 60% of the increase came from foreign operations, primarily due to lower raw materials costs in certain markets and the divestiture of certain marginally performing operations. Domestic operating income increases were generated from Weight Watchers brand food products and meeting operations, Ore-Ida frozen potatoes and pet food, partially offset by higher corn costs. Operating income from both foreign and domestic acquisitions made during 1988 and 1989 also contributed to the 1989 increase.

In 1990, non-operating expenses increased \$31.9 million. This was the result of increased net interest expense of \$35.1 million, which was due to higher average interest rates and higher average "net debt." The increase in average net debt was due to the company's stock repurchase program, increased acquisition activity during the latter part of 1989, higher working capital needs and capital expenditures.

In 1989, total non-operating expenses increased \$13.2 million, from \$65.4 million in 1988 to \$78.6 million, as a result of higher net interest expense of \$12.5 million. The increased net interest expense was attributable to higher net borrowings used to fund capital expenditures, acquisitions and the company's stock repurchase program. The effect of higher debt was partially offset by a slightly lower average interest rate.

The effective income tax rate was 37.8% in 1990, 39.3% in 1989 and 38.0% in 1988. The current year effective tax rate was lower due principally to a reduction in the foreign effective tax rate in 1990 and tax audit adjustments made in 1989, offset by lower tax benefits from U.S. possessions subsidiaries. The 1988 tax rate was favorably affected by larger tax benefits from the company's U.S. possessions subsidiaries. Further information regarding tax rates may be found in Note 2 to the Consolidated Financial Statements.

In December 1987, the Financial Accounting Standards Board (FASB) issued Statement No. 96, "Accounting for Income Taxes." The statement requires the use of the liability method of accounting for deferred income taxes and must be implemented no later than Fiscal 1993. The FASB continues to review and evaluate possible amendments to the statement; the company estimates that the effect of adopting the new rules, as currently issued, will not have a material impact on its financial position.

Net income in 1990 rose 14.6% to \$504.5 million, while net income per share rose 13.8% to \$1.90 per share. The net income per share increase is less than the net income growth as a result of the dilutive effect of the conversion of the company's convertible subordinated debentures in January 1989 and the effect of share price appreciation on common stock equivalents. Domestic operations produced 63.0% of net income in 1990, 57.9% in 1989 and 68.0% in 1988. Foreign operations were affected by unfavorable exchange rates in 1990. In addition, in 1989, the foreign operations benefited from lower effective tax rates compared to 1988, the divestitures of marginally performing operations and lower commodity costs. Net income in 1989

increased 14.0% from \$386.0 million to \$440.2 million; net income per share increased 15.2% from \$1.45 to \$1.67 which reflects the benefits of the company's share repurchase plan.

The company paid \$207.4 million in dividends to common shareholders in 1990, or \$.81 per share. The dividend rate in effect at the end of each fiscal year results in a payout ratio of 44.2% in 1990, 43.1% in 1989 and 42.8% in 1988. Common dividends of \$178.3 million were paid in 1989 and \$154.4 million in 1988.

The impact of inflation on both the company's financial position and results of operations has been minimal and is not expected to adversely affect the 1991 results.

Liquidity and Capital Resources

Return on average shareholders' equity improved for the twelfth consecutive year, reaching 27.5% in 1990 from 26.1% in 1989 and 25.8% in 1988.

Pre-tax return on average invested capital was 31.3% in 1990, 31.4% in 1989 and 30.0% in 1988.

Cash provided by operating activities in 1990 was \$527.8 million, compared to \$416.3 million in 1989. Receivables increased \$104.8 million in 1990 due in part to strong sales in April. Inventories increased in domestic and foreign operations and include incremental inventory for both new product launches and geographic expansion.

Investing activities in 1990 required \$368.3 million, compared to \$375.6 million in 1989. Capital expenditures increased by \$32.0 million to \$355.3 million, and were directly related to productivity improvements and growth-related expansion at existing facilities. It is expected that capital expenditures in 1991 will continue at present spending levels and will include major modernization at the Pittsburgh plant of Heinz U.S.A. and the Latina plant in Italy.

Acquisitions, net of divestitures, required \$49.9 million in 1990, compared to \$94.8 million in 1989. In 1990, the company acquired: a baking company in the United States to further expand its presence in the frozen bakery industry; the franchise for the Weight Watchers meeting operations in the U.S. Gulf States; and several small companies.

In 1989, the company purchased certain assets of a licensee of Weight Watchers brand food products, a manufacturer of single-serve condiments for the foodservice industry, and a producer of frozen unbaked pie and tart shells. In addition, the company sold its chilled salad business in Europe and a poultry processor in Canada.

Cash used for financing activities increased by \$131.1 million to \$136.6 million in 1990, compared

to \$5.5 million in 1989. The increase in 1990 was caused principally by the additional purchases of treasury stock in 1990. The net proceeds of \$291.1 million of new borrowings, together with cash from operating activities, were used for investing activities, dividends and common stock repurchases.

During the year, the board of directors authorized an increase of 16.7% in the quarterly dividend for common stock from 18 cents per share to 21 cents per share and also authorized the repurchase of up to 10 million shares of common stock. In 1990, \$207.5 million was spent to pay dividends, an increase of \$29.0 million over 1989. Also in 1990, \$279.9 million was spent to repurchase 9.2 million shares of common stock. The 1990 stock repurchases reflect the purchase of 5.9 million shares to complete the prior 10 million share repurchase program and 3.3 million shares from the newly authorized plan. In 1989, the company spent \$97.5 million to repurchase 4.1 million shares of common stock under the previously approved plan. The company intends to reissue repurchased shares upon the exercise of stock options and conversion of preferred stock.

In 1990, the board of directors authorized a two-for-one split of common shares in the form of a distribution, effective September 27, 1989. There was no adjustment to the par value or to the total number of authorized common shares. Information throughout this annual report was restated for the stock split to present all data on a consistent and comparable basis.

In 1990, the board of directors adopted, subject to the approval of shareholders at the annual meeting in September 1990, a new stock option plan providing for the grant of up to 12 million shares of common stock. (See Note 6 to the Consolidated Financial Statements.)

In 1990, the company established a \$50 million employee stock ownership plan (ESOP). The purpose of the ESOP is to fund company matching contributions to the H.J. Heinz Company Employees Savings Plan with company stock. The stock will be used in full or in part to replace the company's cash matching contributions. (See Note 4 to the Consolidated Financial Statements.)

In 1989, the company issued Australian \$100.0 million of 12 3/4% unsecured notes due in 1992. The proceeds of this issue were swapped into floating rate U.S. dollar debt based on commercial paper rates. Also, the company's United Kingdom subsidiary borrowed New Zealand \$150.0 million in the form of 13.8% bank loans due in 1993. The loans are guaranteed by the company and were swapped into floating rate pound sterling debt.

based on the pound sterling LIBOR rate. (See Note 3 to the Consolidated Financial Statements.)

In 1989, the company called all of its 7 1/4% convertible subordinated debentures due 2015. The total principal amount of the issue outstanding was \$40.6 million. The holders of the outstanding debentures elected to convert their debentures into approximately 2.3 million common shares of the company at the conversion price of \$17.60 per share. As a result, long-term debt was reduced by \$34.7 million, the outstanding principal amount less the unamortized debt discount. (See Note 4 to the Consolidated Financial Statements.)

As of May 2, 1990, the company had \$490.0 million in unused lines of credit (cancelable only after 390 days written notice), which are maintained primarily to support domestic commercial paper and bank borrowings. Accordingly, \$441.8 million of commercial paper and bank debt supported by such agreements was classified as long-term debt

(\$273.5 million at May 3, 1989). In addition, the company had \$568.6 million of foreign and other domestic lines of credit available at year-end.

The ratio of debt to invested capital was 40.0% in 1990, 35.1% in 1989 and 32.9% in 1988.

The company's financial position continues to remain strong, enabling it to meet cash requirements for operations, capital expansion programs and dividends to shareholders.

Segment and Geographic Data

The company is engaged principally in one line of business—processed food products—which represents over 90% of consolidated sales. The following table presents information about the company by geographic area. There were no material amounts of sales or transfers among geographic areas and no material amounts of United States export sales.

(dollars in thousands)	Domestic	Foreign					
		United Kingdom	Continental Europe	Canada	Other	Total	Worldwide
1990							
Sales	\$3,779,885	\$763,644	\$753,108	\$373,302	\$415,748	\$2,305,802	\$6,085,687
Operating income	566,995	112,285	128,584	54,920	59,132	354,921	921,916
Identifiable assets	2,604,714	607,448	727,942	256,670	290,677	1,882,737	4,487,451
Capital expenditures*	201,686	72,559	26,042	33,091	21,939	153,631	355,317
Depreciation and amortization expense	108,149	22,206	16,206	13,545	8,417	60,374	168,523
1989							
Sales	\$3,473,258	\$770,238	\$769,044	\$374,690	\$413,647	\$2,327,619	\$5,800,877
Operating income	467,702	104,542	124,046	46,530	60,670	335,788	803,490
Identifiable assets	2,379,610	548,564	566,180	234,856	272,597	1,622,197	4,001,807
Capital expenditures*	165,895	105,987	22,019	12,231	17,193	157,430	323,325
Depreciation and amortization expense	95,321	16,760	17,260	10,463	8,300	52,783	148,104
1988							
Sales	\$3,052,583	\$743,840	\$789,056	\$317,929	\$340,822	\$2,191,647	\$5,244,230
Operating income	423,333	83,043	100,856	31,126	49,655	264,680	688,013
Identifiable assets	2,001,342	507,253	626,555	202,621	267,312	1,603,741	3,605,083
Capital expenditures*	114,947	73,064	19,580	15,332	15,342	123,318	238,265
Depreciation and amortization expense	85,532	15,447	16,116	8,205	8,048	47,816	133,348

*Excludes property, plant and equipment acquired through acquisitions

Stock Market Information

H.J. Heinz Company common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange, under the symbol HNZ. The number of shareholders of record of the company's common stock as of June 19, 1990 approximated 44,200. The closing price of the common stock on the New York Stock Exchange composite listing on May 2, 1990 was \$31 1/2.

Stock price information for common stock by quarter follows:

	Stock Price Range	
	High	Low
1990		
First	\$32 1/2	\$24 1/2
Second	32	28
Third	35	28
Fourth	34	27
1989		
First	\$21 1/2	\$19 1/2
Second	25	19
Third	24	21
Fourth	25 1/2	22 1/2

**CONSOLIDATED
STATEMENTS OF
INCOME AND
RETAINED
EARNINGS**

*H.J. Heinz Company
and Subsidiaries*

Fiscal Year Ended (dollars in thousands except per share data)	May 2, 1990 (52 weeks)	May 3, 1989 (53 weeks)	April 27, 1988 (52 weeks)
Consolidated Statements of Income:			
Sales	\$6,085,687	\$5,800,877	\$5,244,230
Cost of products sold	3,726,613	3,550,249	3,212,580
Gross profit	2,359,074	2,250,628	2,031,650
Operating expenses	1,437,158	1,447,138	1,343,637
Operating Income	921,916	803,490	688,013
Interest income	26,748	31,037	39,850
Interest expense	108,542	77,694	73,995
Other expense, net	28,692	31,942	31,295
Income before income taxes	811,430	724,891	622,573
Provision for income taxes	306,979	284,661	236,559
Net Income	\$ 504,451	\$ 440,230	\$ 386,014
Consolidated Statements of Retained Earnings:			
Amount at beginning of year	\$2,263,829	\$2,002,073	\$1,770,632
Net income	504,451	440,230	386,014
Cash dividends:			
Common stock	207,387	178,340	154,418
Preferred stock	113	134	155
Amount at end of year	\$2,560,780	\$2,263,829	\$2,002,073
Per Common Share Amounts:			
Net income	\$ 1.90	\$ 1.67	\$ 1.45
Cash dividends	\$.81	\$ 69½	\$.60½

See Notes to Consolidated Financial Statements.

**CONSOLIDATED
STATEMENTS OF
CASH FLOWS**

H.J. Heinz Company
and Subsidiaries

Fiscal Year Ended (dollars in thousands)	May 2, 1990	May 3, 1989	April 27, 1988
Operating Activities:			
Net income	\$ 504,451	\$ 440,230	\$ 386,014
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	168,523	148,104	133,348
Deferred tax provision	37,921	65,271	27,560
Other items, net	(31,572)	(45,454)	(10,595)
Changes in current assets and liabilities, excluding effects of acquisitions and divestitures:			
Receivables	(104,818)	(69,818)	(72)
Inventories	(86,549)	(134,582)	(12,251)
Prepaid expenses and other current assets	17,634	(13,650)	19,908
Accounts payable	46,751	25,290	38,145
Accrued liabilities	(35,837)	19,855	18,940
Income taxes	11,333	(18,929)	(33,837)
Cash provided by operating activities	527,837	416,317	567,160
Investing Activities:			
Capital expenditures	(355,317)	(323,325)	(238,265)
Acquisitions, net of cash acquired	(56,328)	(167,470)	(287,597)
Proceeds from divestitures	6,398	72,712	18,880
Purchases of short-term investments	(342,228)	(382,550)	(513,408)
Sales and maturities of short-term investments	368,767	412,365	666,272
Other items, net	10,434	12,627	5,005
Cash (used for) investing activities	(368,274)	(375,641)	(349,113)
Financing Activities:			
Proceeds from long-term debt	231,584	227,291	45,108
Payments on long-term debt	(28,095)	(34,683)	(165,832)
Proceeds (payments) on short-term debt	87,596	49,110	(41,305)
Dividends	(207,500)	(178,474)	(154,573)
Purchase of treasury stock	(279,899)	(97,508)	(123,519)
Exercise of stock options	56,752	30,393	23,463
Cash loaned to ESOP, net	(47,000)	—	—
Sale of treasury stock to ESOP	50,000	—	—
Other items, net	—	(1,590)	1,589
Cash (used for) financing activities	(136,562)	(5,461)	(415,069)
Effect of exchange rate changes on cash and cash equivalents	211	(8,098)	280
Net increase (decrease) in cash and cash equivalents	23,212	27,117	(196,742)
Cash and cash equivalents at beginning of year	102,605	75,488	272,230
Cash and cash equivalents at end of year	\$ 125,817	\$ 102,605	\$ 75,488

See Notes to Consolidated Financial Statements

**CONSOLIDATED
BALANCE SHEETS**

H. J. Heinz Company
and Subsidiaries

Assets (dollars in thousands)	May 2, 1990	May 3, 1989
Current Assets:		
Cash and cash equivalents	\$ 125,817	\$ 102,605
Short-term investments, at cost which approximates market	115,264	135,124
Receivables (net of allowances of \$8,564 and \$9,660)	640,788	507,475
Inventories:		
Finished goods and work-in-process	701,645	616,703
Packaging material and ingredients	291,940	285,998
	993,585	902,701
Prepaid expenses and other current assets	138,246	127,281
Total current assets	2,013,700	1,775,186
Property, Plant and Equipment:		
Land	38,690	40,394
Buildings and leasehold improvements	498,833	440,832
Equipment, furniture and other	1,958,016	1,702,880
	2,495,539	2,184,106
Less accumulated depreciation	927,787	818,083
Total property, plant and equipment, net	1,567,752	1,366,023
Other Noncurrent Assets:		
Investments, advances and other assets	258,166	255,221
Goodwill (net of amortization of \$51,694 and \$38,413)	430,888	390,016
Other intangibles (net of amortization of \$36,279 and \$33,998)	216,945	215,361
Total other noncurrent assets	905,999	860,598
Total assets	\$4,487,451	\$4,001,807

See Notes to Consolidated Financial Statements.

Liabilities and Shareholders' Equity (dollars in thousands)	May 2, 1990	May 3, 1989
Current Liabilities:		
Short-term debt	\$ 336,873	\$ 245,941
Portion of long-term debt due within one year	44,506	22,900
Accounts payable	460,044	407,050
Salaries and wages	79,789	75,470
Accrued marketing	75,786	91,780
Other accrued liabilities	209,759	218,480
Income taxes	73,244	54,281
Total current liabilities	1,280,001	1,115,902
Long-Term Debt and Other Liabilities:		
Long-term debt	875,228	693,480
Deferred income taxes	309,683	281,489
Other	135,640	133,698
Total long-term debt and other liabilities	1,320,551	1,108,667
Shareholders' Equity:		
Capital stock:		
Third cumulative preferred, \$1.70 first series, \$10 par value	599	757
Common stock, 287,400,000 shares issued, \$.25 par value	71,850	71,850
Additional capital	72,449	72,607
Retained earnings	152,128	109,665
Cumulative translation adjustments	2,560,780	2,263,829
	(73,910)	(89,205)
Less:		
Treasury shares, at cost (33,881,804 shares at May 2, 1990 and 30,437,230 shares at May 3, 1989)	777,548	579,658
Unearned compensation relating to the ESOP	47,000	—
Total shareholders' equity	1,886,899	1,777,238
Total liabilities and shareholders' equity	\$4,487,451	\$4,001,807

**NOTES TO
CONSOLIDATED
FINANCIAL
STATEMENTS**

*H.J. Heinz Company
and Subsidiaries*

1. Significant Accounting Policies

Fiscal Year: The company operates on a fiscal year ending the Wednesday nearest April 30. However, certain foreign subsidiaries have earlier closing dates to facilitate timely reporting. Fiscal years for the financial statements included herein ended May 2, 1990, May 3, 1989 and April 27, 1988.

Principles of Consolidation: The consolidated financial statements include the accounts of the company and its subsidiaries. All significant intercompany accounts and transactions were eliminated. Certain reclassifications were made to prior years' amounts to conform with the 1990 presentation.

Translation of Foreign Currencies: For all significant foreign operations, the functional currency is the local currency. Assets and liabilities of these operations are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included as a component of shareholders' equity. Gains and losses from foreign currency transactions are included in net income for the period.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined principally under the average cost method.

Property, Plant and Equipment: Land, buildings and equipment are recorded at cost. For financial reporting purposes, depreciation is provided on the straight-line method over the estimated useful lives of the assets. Accelerated depreciation methods are generally used for income tax purposes. Expenditures for new facilities and improvements which substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. When property is retired or otherwise disposed, the cost and related depreciation are removed from the accounts and any related gains or losses are included in income.

Income Taxes: Deferred income taxes result primarily from timing differences between financial and tax reporting. The company has not provided for possible U.S. taxes on the undistributed earnings of foreign subsidiaries that are considered to be reinvested indefinitely. Where it is contemplated that earnings will be remitted, credit for foreign taxes already paid generally will offset applicable U.S. income taxes; in cases where they will not offset U.S. income taxes, appropriate provisions are included in the Consolidated Statements of Income.

In December 1987, the FASB issued Statement No. 96, "Accounting for Income Taxes." The statement requires the use of the liability method of accounting for deferred income taxes and must be implemented no later than Fiscal 1993. The FASB continues to review and evaluate possible amendments to the statement. The company estimates that the effect of adopting the new rules, as currently issued, will not have a material impact on its financial position.

Net Income Per Common Share: Net income per common share has been computed by dividing income applicable to common shareholders by the weighted average number of shares of common stock outstanding and common stock equivalents during the respective years.

Intangibles: Goodwill and other intangibles arising from acquisitions are being amortized on a straight-line basis over periods not exceeding 40 years. The company regularly reviews the individual components of the balances and recognizes, on a current basis, any diminution in value.

Cash Equivalents: Cash equivalents are defined as highly liquid investments with original maturities of 90 days or less.

Business Segment Information: Information concerning business segment and geographic data is in Management's Discussion and Analysis.

2. Income Taxes

The following table summarizes the provision for U.S. federal and U.S. possessions, state and foreign taxes on income.

(dollars in thousands)	1990	1989	1988
Current:			
U.S. federal and U.S. possessions	\$140,299	\$105,118	\$107,163
State	29,171	23,004	22,512
Foreign	99,588	91,268	79,324
	269,058	219,390	208,999
Deferred:			
U.S. federal and U.S. possessions	15,121	23,909	(8,624)
State	1,812	6,197	1,010
Foreign	20,988	35,165	35,174
	37,921	65,271	27,560
Total tax provision	\$306,979	\$284,661	\$236,559
Income before income taxes:			
Domestic	\$504,435	\$416,654	\$384,572
Foreign	306,995	308,237	238,001
	\$811,430	\$724,891	\$622,573

Deferred taxes result principally from depreciation and prefunded employee benefits.

The company's consolidated United States income tax returns have been audited by the Internal Revenue Service for all years through 1985.

Deferred income taxes were not provided on undistributed earnings of foreign subsidiaries that are considered permanently reinvested. The amount of such undistributed earnings was \$653.6 million at May 2, 1990.

The differences between the United States statutory tax rate and the effective rate are as follows:

	1990	1989	1988
U.S. federal statutory tax rate	34.0%	34.0%	36.0%
Tax on income of foreign subsidiaries	2.0	3.0	4.6
Tax on income of U.S. possessions subsidiaries	(1.4)	(2.1)	(5.9)
State income taxes: (net of U.S. federal income tax benefit)	2.6	2.7	2.4
Other	6	1.7	9
Consolidated effective tax rate	37.8%	39.3%	38.0%

3. Debt

Amounts outstanding at year-end:

Short-term (dollars in thousands)		1990	1989
Bank and other borrowings		\$336,873	\$245,941
Long-Term (dollars in thousands)	Range of interest	Maturity (fiscal year)	
		1990	1989
United States Dollars:			
Commercial paper	Variable	1992	\$441,835
Eurodollar bonds	7 1/2%	1997	75,000
Revenue bonds	8%–11%	1991–2016	77,455
Promissory notes	6%–12	1991–2001	23,272
Other	4–8 1/2	1991–2000	10,540
			628,102
			465,463
Foreign Currencies (U.S. dollar equivalents):			
Promissory notes:			
Australian dollars	Variable	1992	75,000
Australian dollars	12 1/4	1991	28,134
Italian lire	6%–17%	1991–2000	24,094
New Zealand dollars	Variable	1991–1993	93,897
Spanish pesetas	Variable	1995	24,840
Other	9–15	1991–1999	45,667
			291,632
Total long-term debt			919,734
Less portion due within one year			44,506
			875,228
			\$693,480

The amount of long-term debt, excluding commercial paper, required to be retired in each of the four years succeeding 1991 is: \$95.7 million in 1992, \$106.2 million in 1993, \$17.2 million in 1994 and \$29.9 million in 1995.

The commercial paper is supported by long-term line of credit agreements totaling \$490.0 million, cancellable only after 390 days written notice. The commercial paper had a weighted average interest rate during the year of 8.7% and at year-end of 8.4%. In addition, the company had \$568.6 million of foreign and other domestic lines of credit available at year-end, principally for overdraft protection.

The Eurodollar bonds include warrants to purchase an additional \$75.0 million of 7 1/2% bonds prior to October 2, 1990.

The Australian \$100.0 million 12 1/4% unsecured notes are due in 1992. The proceeds of this issue were swapped into floating rate U.S. dollar debt based on commercial paper rates. The effective interest rate at May 2, 1990 was 7.9%.

The New Zealand \$150.0 million 13.8% bank loans are due in 1993. The loans are guaranteed by the company and have been swapped into floating rate pound sterling debt maturing 1991 through 1993 with interest based on the pound sterling LIBOR rate (15.7% as of May 2, 1990).

4. Shareholders' Equity

Information related to stock issued and in treasury, and to additional capital follows:

(in thousands)	Cumulative Preferred Stock		Common Stock				Additional Capital Amount
	Third, \$1.70 First Series \$10 par	Amount	Issued		In Treasury	Shares	
	Amount	Shares	Amount	Shares	Amount	Shares	
Balance April 29, 1987*	\$ 970	\$ 71,850	287,400	\$ 451,980	30,122	\$ 89,521	
Reacquired	—	—	—	123,519	5,406	—	
Conversion of preferred into common stock	(128)	—	—	(972)	(116)	(843)	
Stock options exercised	—	—	—	(27,598)	(3,276)	11,013	
Other, net	—	—	—	809	28	269	
Balance April 27, 1988	\$ 842	\$ 71,850	287,400	\$ 547,738	32,164	\$ 99,960	
Reacquired	—	—	—	97,508	4,112	—	
Conversion of preferred into common stock	(85)	—	—	(693)	(76)	(608)	
Conversion of 7 1/4% subordinated debentures	—	—	—	(30,906)	(2,300)	3,784	
Stock options exercised	—	—	—	(35,379)	(3,513)	6,293	
Other, net	—	—	—	1,390	50	236	
Balance May 3, 1989	\$ 757	\$ 71,850	287,400	\$ 579,658	30,437	\$ 109,665	
Reacquired	—	—	—	279,899	9,219	—	
Conversion of preferred into common stock	(158)	—	—	(2,107)	(142)	(1,949)	
Stock options exercised	—	—	—	(58,458)	(4,025)	15,005	
Sale of treasury shares to ESOP	—	—	—	(21,207)	(1,578)	28,793	
Other, net	—	—	—	(237)	(29)	614	
Balance May 2, 1990	\$ 599	\$ 71,850	287,400	\$ 777,548	33,882	\$ 152,128	
Authorized Shares—May 2, 1990		60		600,000			

*Restated to reflect the two-for-one split of common shares in the form of a distribution, effective September 27, 1989.

Capital Stock: The preferred stock outstanding is convertible at a rate of one share of preferred stock into 9.0 shares of common stock. The company can redeem the stock at \$28.50 per share.

The board of directors authorized a two-for-one stock split in the form of a distribution of shares of common stock, effective September 27, 1989. Information throughout these financial statements was restated for the stock split to present all data on a consistent and comparable basis.

On May 2, 1990, there were authorized, but unissued, 2,200,000 shares of third cumulative preferred stock for which the series had not been designated.

In January 1989, the company called all of its 7 1/4% convertible subordinated debentures due 2015. The principal amount outstanding at the time of redemption was \$40.6 million. The holders of the outstanding debentures elected to convert their debentures into 2.3 million shares of the company's

common stock at the conversion price of \$17.60 per share.

Employee Stock Ownership Plan (ESOP): The company established an ESOP in 1990 to replace in full or in part the company's cash-matching contribution to the H.J. Heinz Company Employees Savings Plan for salaried employees. The ESOP borrowed \$50 million directly from the company and purchased 1,577,908 shares of treasury stock at \$31.6875 per share. The company financed the transaction with short-term debt. The loan to the ESOP is in the form of a 15-year variable-rate interest-bearing note (9.375% as of May 2, 1990) and is included in the company's balance sheet as unearned compensation. The ESOP may refinance the loan with third-party debt guaranteed by the company. In Fiscal 1990, company contributions to the ESOP, including dividends on unallocated common stock, resulted

in a net reduction of \$3 million to the ESOP note. Future company contributions to the ESOP, plus dividends paid on unallocated common stock held by the ESOP, will be used to service the loan.

Cumulative Translation Adjustments: Changes in the cumulative translation component of shareholders' equity result principally from translation of financial statements of foreign subsidiaries into U.S. dollars. The reduction in shareholders' equity related to the translation component decreased \$15.3 million in 1990, increased \$56.1 million in 1989 and decreased \$54.9 million in 1988.

5. Supplemental Cash Flow Information

(dollars in thousands)	1990	1989	1988
Cash paid during the year for:			
Interest	\$ 106,696	\$ 84,219	\$ 79,323
Income taxes	233,081	235,020	249,017
Details of acquisitions:			
Fair value of assets acquired	\$ 87,270	\$ 198,946	\$ 377,281
Liabilities assumed*	29,577	28,853	84,356
Cash paid	57,693	170,093	292,925
Less cash acquired	1,365	2,623	5,328
Net cash paid for acquisitions	\$ 56,328	\$ 167,473	\$ 287,597

*Includes notes to seller.

In January 1989, the company issued 2.3 million shares of common stock in exchange for its 7 1/4% convertible subordinated debentures due 2015. As a result, long-term debt was reduced by \$34.7 million. Further information regarding the debt conversion is included in Note 4.

6. Employees' Stock Option Plans and Management Incentive Plans

Under the company's stock option plans, officers and other key employees may be granted options, each of which allows for the purchase of shares of the company's common stock. The option price on all outstanding options is equal to the fair market value of the stock at the date of grant.

In Fiscal 1990, the board of directors adopted, subject to the approval of the shareholders at the annual meeting in September 1990, a new stock option plan providing for the grant of up to 12 million shares at any time over the next ten years. As of May 2, 1990, an option for approximately 2.3 million shares had been granted under this plan. In general, this plan has terms similar to the company's other stock option plans.

The shares authorized but not granted under the company's stock option plans, including the 1990 plan, were 10,577,092 at May 2, 1990 and 3,047,312 at May 3, 1989.

Data regarding the company's stock option plans follows:

	Shares	Range of Option Price
Shares under option April 29, 1987	26,612,660	\$ 2 1/4-22%
Options granted	845,560	19-24%
Options exercised	(3,275,720)	2 1/4-22%
Options surrendered	(52,000)	16 1/2-22%
Shares under option April 27, 1988	24,130,500	\$ 3 3/4-24%
Options granted	9,484,340	20 1/2-25%
Options exercised	(3,512,582)	3 1/4-22%
Options surrendered	(37,000)	13 1/2-22%
Shares under option May 3, 1989	30,065,258	\$ 3 3/4-25%
Options granted	4,971,000	22 1/2-32%
Options exercised	(4,025,334)	4 1/4-24%
Options surrendered	(500,780)	14 1/2-28%
Shares under option May 2, 1990	30,510,144	\$ 3 3/4-32%
Options exercisable at May 3, 1989	20,187,438	
May 2, 1990	17,858,604	

Common stock reserved for options totaled 41,087,236 shares as of May 2, 1990 and 33,112,570 shares as of May 3, 1989.

The company's management incentive plans cover certain officers and other key employees of the company and its subsidiaries. Participants in the plans may elect to be paid on a current or deferred basis. The aggregate amount of all awards may not exceed certain limits in any year. Management incentive plans expense was \$20.7 million in 1990, \$23.1 million in 1989 and \$23.3 million in 1988.

7. Retirement Plans

The company maintains retirement plans for the majority of its employees. Benefits are based on years of service and compensation or stated amounts for each year of service. Plan assets are primarily invested in equities and fixed income securities. The company's funding policy for the U.S. plans is to contribute annually not less than the ERISA minimum funding standards nor more than the maximum amount which can be deducted for federal income tax purposes. Generally, foreign plans are funded in amounts sufficient to comply with local regulations and ensure adequate funds to pay benefits to retirees as they become due.

Consolidated net pension costs consisted of the following:

(dollars in thousands)	1990	1989	1988
Benefits earned during the year	\$ 23,794	\$ 25,617	\$ 28,955
Interest cost on projected benefit obligation	74,979	71,059	64,535
Actual return on plan assets	(78,136)	(158,675)	32,389
Net amortization and deferral	(17,143)	67,014	(118,378)
Consolidated net pension costs	\$ 3,494	\$ 5,015	\$ 7,501

The following table sets forth the combined funded status of the company's principal plans at May 2, 1990 and May 3, 1989.

(dollars in thousands)	1990	1989
Actuarial present value of:		
Accumulated benefit obligation, primarily vested	\$ 720,594	\$ 726,398
Additional obligation for projected compensation increases	139,235	138,064
Projected benefit obligation	859,829	864,462
Plan assets	973,302	958,201
Plan assets in excess of projected benefit obligation	113,473	93,739
Unamortized prior service cost	46,790	42,876
Unamortized actuarial gains	(31,731)	(9,365)
Unamortized net assets at date of adoption	(99,556)	(111,816)
Prepaid pension costs	\$ 28,976	\$ 15,434

The weighted average rates used for the years ended May 2, 1990, May 3, 1989 and April 27, 1988, in determining the net pension costs and projected benefit obligations were as follows:

	1990	1989	1988
Expected rate of return on plan assets	9.6%	9.7%	9.2%
Discount rate	9.7%	9.1%	8.8%
Compensation increase rate	6.5%	6.6%	6.3%

Assumptions for foreign plans are developed on a basis consistent with those for U.S. plans, adjusted for prevailing economic conditions.

In addition to providing pension benefits, the company and certain of its subsidiaries provide

health care and life insurance benefits for retired employees. Substantially all of the company's U.S. and Canadian employees may become eligible for these benefits. The cost of retiree health care and life insurance benefits is expensed as incurred. These costs were \$4.9 million in 1990, \$4.2 million in 1989 and \$3.3 million in 1988.

8. Leases

Operating lease rentals for warehouse, production and office facilities and equipment amounted to approximately \$63.0 million in 1990, \$54.8 million in 1989 and \$48.8 million in 1988. Future lease payments for noncancelable operating leases as of May 2, 1990 totaled \$191.5 million (1991-\$36.4 million, 1992-\$27.5 million, 1993-\$22.4 million, 1994-\$19.3 million, 1995-\$16.2 million and thereafter-\$69.7 million).

9. Legal Matters

Certain claims have been filed against the company or its subsidiaries and have not been finally adjudicated. These claims, when finally concluded and determined, in the opinion of management, based upon the information that it presently possesses, will not have a material adverse effect on the consolidated financial position.

10. Quarterly Results (Unaudited)

Summarized quarterly financial information follows:

(dollars in thousands except per share amounts)	Sales	Gross Profit	Net Income	Per Share Amounts	
				Net Income	Dividends
1990					
First	\$ 1,451,949	\$ 569,097	\$ 126,546	\$.48	\$.18
Second	1,531,078	588,840	125,395	.47	.21
Third	1,408,433	553,498	117,196	.44	.21
Fourth	1,694,227	647,639	135,314	.51	.21
Total	\$ 6,085,687	\$ 2,359,074	\$ 504,451	\$ 1.90	\$.81
1989					
First	\$ 1,379,495	\$ 555,236	\$ 110,068	\$.42	\$.15
Second	1,424,639	555,857	109,927	.42	.18
Third	1,366,508	523,822	103,034	.39	.18
Fourth	1,630,235	615,713	117,201	.44	.18
Total	\$ 5,800,877	\$ 2,260,628	\$ 440,230	\$ 1.67	\$.69

Independent Accountants' Report

The Shareholders
H.J. Heinz Company:

We have audited the accompanying consolidated balance sheets of H.J. Heinz Company and subsidiaries as of May 2, 1990 and May 3, 1989, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended May 2, 1990. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of H.J. Heinz Company and subsidiaries as of May 2, 1990 and May 3, 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended May 2, 1990 in conformity with generally accepted accounting principles.

Coopers & Lybrand
600 Grant Street
Pittsburgh, Pennsylvania
June 18, 1990

Responsibility for Financial Statements

Management of H.J. Heinz Company is primarily responsible for the preparation of the financial statements and other information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles, incorporating management's best estimates and judgments, where applicable.

Management believes that the company's internal control systems provide reasonable assurance that assets are safeguarded, transactions are recorded and reported appropriately, and policies are followed. The concept of reasonable assurance recognizes that the cost of a control procedure should not exceed the expected benefits. Management believes that its systems provide this appropriate balance. An important element of the company's control systems is the ongoing program to promote control consciousness throughout the organization. Management's commitment to this program is emphasized through written policies and procedures (including a code of conduct), an effective internal audit function and a qualified financial staff.

The company engages independent public accountants who are responsible for performing an independent audit of the financial statements. Their report, which appears herein, is based on obtaining an understanding of the company's accounting systems and procedures and testing them as they deem necessary.

The company's Audit Committee is composed entirely of outside directors. The Audit Committee meets regularly, and when appropriate separately, with the independent public accountants, the internal auditors and financial management to review the work of each and to satisfy itself that each is discharging its responsibilities properly. Both the independent public accountants and the internal auditors have unrestricted access to the Audit Committee.

**ELEVEN-YEAR
SUMMARY OF
OPERATIONS
AND OTHER
RELATED DATA**

*H. J. Heinz Company
and Subsidiaries*

(dollars in thousands except per share data)	1990	1989	1988	1987
Summary of Operations:				
Sales	\$6,085,687	\$5,800,877	\$5,244,230	\$4,639,486
Cost of products sold	3,726,613	3,550,249	3,212,580	2,858,096
Interest expense	108,542	77,694	73,995	50,978
Provision for income taxes	306,979	284,661	236,559	226,070
Net income	504,451	440,230	386,014	338,506
Net income per common share	1.90	1.67	1.45	1.24
Other Related Data:				
Dividends paid:				
Common	207,387	178,340	154,418	132,278
per share	.81	.69 $\frac{1}{2}$.60 $\frac{1}{2}$.50 $\frac{1}{2}$
Preferred	113	134	155	177
Average shares for earnings per share	266,078,096	263,568,068	265,411,890	273,669,332
Number of employees	37,300	36,200	39,000	37,500
Capital expenditures	355,317	323,325	238,265	184,730
Depreciation and amortization	168,523	148,104	133,348	109,868
Total assets	4,487,451	4,001,807	3,605,083	3,364,197
Total debt	1,256,607	962,321	780,330	876,620
Shareholders' equity	1,886,899	1,777,238	1,593,856	1,392,949
Pretax return on average invested capital (%)	31.3	31.4	30.0	29.5
Return on average shareholders' equity (%)	27.5	26.1	25.8	24.6
Book value per common share	7.44	6.91	6.24	5.40
Price range of common stock:				
High	35 $\frac{1}{2}$	25 $\frac{1}{2}$	25 $\frac{1}{2}$	25 $\frac{1}{2}$
Low	24 $\frac{1}{2}$	19 $\frac{1}{2}$	16 $\frac{1}{2}$	19 $\frac{1}{2}$

Share and per share amounts reflect the two-for-one split of common shares in the form of a distribution, effective September 27, 1989.

1986	1985	1984	1983	1982	1981	1980
\$4,366,177	\$4,047,945	\$3,953,761	\$3,738,445	\$3,688,500	\$3,568,889	\$2,924,774
2,697,264	2,532,776	2,489,513	2,400,973	2,432,944	2,372,759	1,947,443
57,956	52,821	46,417	50,354	58,831	59,585	49,010
197,594	179,325	164,725	136,122	106,145	126,879	59,583
301,734	265,978	237,530	214,250	192,802	160,827	131,497
1.10	.96	.85	.75	.68	.58	.48
117,351	105,489	94,210	76,352	65,755	54,841	48,131
.43 $\frac{3}{4}$.38 $\frac{3}{4}$.33 $\frac{3}{4}$.27	.23 $\frac{1}{2}$.20	.18
227	291	387	805	1,220	2,198	3,075
274,631,402	275,357,760	279,325,108	284,101,536	280,645,680	273,510,240	268,658,964
36,400	37,100	38,100	37,200	36,600	36,400	37,400
206,331	158,830	136,971	111,385	140,451	128,604	98,061
91,400	84,721	75,925	69,738	64,427	61,251	53,210
2,837,364	2,473,774	2,342,970	2,178,693	2,129,570	2,039,578	1,936,736
540,588	463,413	448,676	384,049	455,672	432,451	502,465
1,360,007	1,230,454	1,120,659	1,139,610	1,029,830	944,668	843,839
31.0	30.5	29.0	26.6	25.0	25.5	19.6
23.3	22.6	21.0	19.8	19.5	18.0	16.4
5.08	4.49	4.09	3.95	3.58	3.29	2.94
22	12%	9%	7%	5%	4%	3 $\frac{3}{4}$
11%	8%	6 $\frac{1}{2}$	4 $\frac{1}{2}$	4%	3%	2 $\frac{1}{2}$

**DIRECTORS
AND OFFICERS**
H.J. Heinz Company

Board of Directors

<i>Anthony J.F. O'Reilly</i> Chairman, President and Chief Executive Officer. Director since 1971. (1,3,5,6)	<i>Albert Lippert</i> Chairman, Weight Watchers International, Inc. Director since 1978. (2,6)
<i>Joseph J. Bogdanovich</i> Vice Chairman. Director since 1963. (1,3,6)	<i>F. James McDonald</i> Director, Various Corporations. Director since 1977. (2,3,4)
<i>J. Wray Connolly</i> Senior Vice President. Director since 1985. (1)	<i>Herman J. Schmidt</i> Director, Various Corporations. Director since 1977. (2,3,4,6)
<i>Paul I. Corddry</i> Senior Vice President. Director since 1986. (1)	<i>David W. Sculley</i> Senior Vice President. Director since 1989. (1)
<i>Richard M. Cyert</i> President, Carnegie Bosch Institute and Professor of Economics and Management, Carnegie Mellon University, Pittsburgh, Pennsylvania. Director since 1984. (2,3,4,6)	<i>Eleanor B. Sheldon</i> Director, Various Corporations. Director since 1979. (2,4,6)
<i>R. Derek Finlay</i> Senior Vice President- Corporate Development and Chief Financial Officer. Director since 1981. (1,5)	<i>William P. Snyder III</i> President, The Wilpen Group, Inc., Pittsburgh, Pennsylvania. Director since 1961. (2,3,4)
<i>Samuel C. Johnson</i> Chairman, S. C. Johnson & Son, Inc., Racine, Wisconsin. Director since 1988. (2,4)	<i>S. Donald Wiley</i> Senior Vice President, General Counsel and Secretary. Director since 1972. (1,5)

Committees of the Board

- (1) Executive Committee
(2) Management Development
and Compensation
Committee
(3) Nominating Committee
(4) Audit Committee
(5) Investment Committee
(6) Public Issues Committee

Officers

<i>Anthony J.F. O'Reilly</i> Chairman, President and Chief Executive Officer	<i>Thomas A. MacMurray</i> Vice President-Technical Development*
<i>Joseph J. Bogdanovich</i> Vice Chairman	<i>Lawrence J. McCabe</i> Vice President and Associate General Counsel
<i>J. Wray Connolly</i> Senior Vice President	<i>Paul F. Renne</i> Vice President-Finance and Treasurer
<i>Paul I. Corddry</i> Senior Vice President	<i>Walter G. Schmid</i> Vice President-Corporate Planning
<i>R. Derek Finlay</i> Senior Vice President- Corporate Development and Chief Financial Officer	<i>David W. Sculley</i> Senior Vice President
<i>George C. Greer</i> Vice President-Organization Development and Administration	<i>D. Edward J. Smyth</i> Vice President-Corporate Affairs*
	<i>S. Donald Wiley</i> Senior Vice President, General Counsel and Secretary
	<i>David R. Williams</i> Vice President and Controller

*Elected March 1990

Heinz: A Definition

H.J. Heinz Company is a worldwide provider of processed food products and nutritional services. Heinz's varieties now number more than 3,000 and its business extends to loyal consumers in over 200 countries and territories. The company's two strongest global brands are Heinz and Weight Watchers, which in the United States are joined by powerful names, such as Ore-Ida, StarKist, 9-Lives and many others. Heinz provides employment for approximately 37,300 people full-time, plus thousands of others on a part-time basis and during seasonal peaks. A Total Quality Management (TQM) process has been introduced to enhance Heinz's quality culture and to make it an even more dynamic company for the 1990s.

Annual Meeting

The annual meeting of the company's shareholders will be held at 2 p.m. on Tuesday, September 11, 1990 in Pittsburgh at Heinz Hall for the Performing Arts. Proxy materials and formal notice of the meeting will be sent to shareholders about August 3, 1990.

Other Information

The company submits an annual report to the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this Form 10-K without charge by writing to: Corporate Affairs Department, H.J. Heinz Company, P.O. Box 57, Pittsburgh, Pennsylvania 15230-0057.

The company will, upon written request addressed to the secretary of the company and upon the prepayment of reasonable charges, provide shareholders with a copy of the company's pension plan description, the latest annual report of the administrator, and the trust agreement or contract under which the plan is established, for any of the domestic pension plans of the company.

Investor Information

Securities analysts and investors seeking additional information about the company should contact John M. Mazur, assistant treasurer, at the World Headquarters address or should call him at (412) 456-6014.

Corporate Data

Transfer Agent, Registrar and Disbursing Agent: Mellon Bank, N.A., P.O. Box 444, Pittsburgh, Pennsylvania 15230 (412) 236-8000

Auditors: Coopers & Lybrand, 600 Grant Street, Pittsburgh, Pennsylvania 15219

Stock Listing: New York Stock Exchange

Ticker Symbols: Common-HNZ

Third Cumulative Preferred-HNZ PR

Pacific Stock Exchange

Ticker Symbol: Common-HNZ

Copies Of This Publication

Additional copies of this publication are available from the Corporate Affairs Department at the World Headquarters address or by calling (412) 456-5783.

Dividend Reinvestment

The company offers an Automatic Dividend Reinvestment Service for shareholders. The plan provides for the reinvestment of quarterly dividends in shares of the company's common stock. Shareholders may also purchase additional shares under the plan with cash contributions. The company pays brokerage commissions and service charges under the plan.

For additional information regarding the dividend reinvestment plan, contact:

Mellon Bank, N.A.

P.O. Box 444

Pittsburgh, Pennsylvania 15230

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H.J. Heinz Company

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